

Message Text

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ACTION NEA-10

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C O N F I D E N T I A L JIDDA 0628

E.O. 11652: GDS
TAGS: BGEN, PINT, SA
SUBJECT; COMMENTS ON DECREE ON "INFLUENCE PEDDLING"

REF: A. STATE 11481 B. JIDDA 320 C. STATE 18074

1. EMBASSY HAS NOTED IN THE RECENT PAST THAT SAG POSSESSED
VARIOUS REFORMIST FACTIONS IN ITS RANKS, FOREMOST AMONG THEM
MINISTER OF INDUSTRY AND ELECTRICITY AL-GOSAIBI. WE SEE THE
AL-GOSAIBI DECREE AS DESIGNED TO LIMIT INROADS ON NATIONAL
TREASURY EVIDENCED BY RUMORS OF HIGH FEES CHARGED IN RECENT
CONTRACTS. ADDITIONAL GUIDELINES IN DECREE ORGANIZE AND
RATIONALIZE DUTIES AND RIGHTS OF AGENT FORMERLY HARDLY CIR-
CUMSCRIBED IN THEIR PRIVILEGES.

2. EFFECT OF DECREE WILL BE MORE SLICES OF LARGER PIE FOR
AGENTS (BECAUSE OF LIMITATION TO 10 CONTRACTS) AND PERHAPS
AN END TO SOME OF THE MORE FREEBOOTING TACTICS RUMORED TO
OCCUR IN RELATIONS BETWEEN AGENTS AND THEIR CLIENTS.

3. EMBOFFS DISCUSSIONS WITH SOME SAUDI FIRMS NOW HAVING
AGENCY AGREEMENTS WITH U.S. AND OTHER FOREIGN CONTRACTORS
REVEAL THAT MOST DO NOT BELIEVE THE FIVE PERCENT MAXIMUM
FEE IS REALISTIC OR ENFORCEABLE. THE SMALLER SCALE AGENTS
WHO GENERALLY COMBINE HOUSEKEEPING DUTIES, SUCH AS HOTELS,
SPONSORSHIP FOR VISAS AND TRANSLATIONS, WITH ACTIVE BUS-
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INESS PROMOTION OF A FOREIGN FIRMS INTERESTS ARE PAID
MONTHLY AND ANNUAL FEES AND WONDER WHETHER THESE WILL
BE CALCULATED AS PART OF THE PERMISSABLE FIVE PERCENT.
MOST WORK IS ON A TEN PERCENT BASIS ON TOTAL PRICE OF A
CONTRACT. REGULATIONS ARE NOT CLEAR ON FIXED FEES OUTSIDE
OF COMMISSIONS. SHOULD THESE FIXED PAYMENTS NOT BE REGU-
LATED THEN THEY WILL INCREASE TO COMPENSATE FOR LOWERED

COMMISSIONS.

4. THE FIVE PERCENT LIMIT ON COMMISSIONS FOR SAUDI AGENTS IS OF INTEREST BECAUSE THIS COINCIDED WITH THE MOST PRE-VALENT RUMOR OF WHAT PRINCE MOHAMMED BIN FAHD, SON OF THE CROWN PRINCE, GOT FROM THE PHILLIPS CONSORTIUM FOR THE SR 11.5 BILLION TELECOMMUNICATIONS CONTRACT.

5. THE GREATEST IMMEDIATE IMPACT OF THE NEW REGULATIONS AT THE MEMENT WILL BE THE NEED FOR FOREIGN CONTRACTORS WHO DO NOT HAVE LICENSED AGENTS TO SCURRY ABOUT AND ACQUIRE AGENCY CONNECTIONS. MANY FROECH, GERMAN AND KOREAN CONTRACTORS HAVE OBTAINED CONTRACTS THROUGH INFLUENCE PEDDLERS WITHOUT COMMERCIAL REGISTRATION. ALMOST ALL U.S. CONTRACTORS, EXCEPT FOR A VERY FEW A&E FIRMS, DO HAVE LEGAL AGENTS OF JOINT VENTURE WITH SAUDIS AND APPEAR NOT TO BE PERTURBED BY THE REGULATIONS.

6. WE BELIEVE THE TREND FOR BUSINESS RELATIONSHIPS BETWEEN FOREIGN CONTRACTORS AND SAUDIS WILL BE INCREASINGLY TOWARDS REAL OR PAPER JOINT VENTURES WHICH WILL ELIMINATE SAG SCRUTINY OF AGENCY RELATIONSHIPS FOR THOSE FOREIGN FIRMS MOST AFFECTED.

7. WE WILL CONTINUE TO FOLLOW UP ON EFFECTS OF DECREE ON AGENCY-PRINCIPAL RELATIONSHIPS.
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8. AS FOR REF C, DECREE HAS BEEN PUBLISHED IN SAUDI PRESS. EMBASSY NOT YET IN RECEIPT OF OFFICIAL GAZETTE.
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